



# Howard County, Maryland

## *economic*

# INDICATORS

### Our Mission...

Review the most currently available economic indicators for Howard County and surrounding areas to assist in providing advance warning of possible shifts in the local economy that may be helpful in the evaluation of current and future government policies and private sector business decisions.

## Insight & Outlook

**Retail...**representatives reported this sector continues to enjoy strong sales and volumes. The last quarter has been as strong as any in memory and the outlook for the near term is positive. Customers from residential and commercial sources still appear to be happy and willing to spend. Many commercial customers are preparing for holiday entertaining, something that has not been commonplace for several years. The recent Thanksgiving Holiday was a success for most retailers. Labor costs are up and the supply of labor in this sector has been better than usual. The domestic new auto market has continued to soften even though gasoline prices have leveled off in recent weeks. The outlook for Maryland new auto sales in 2007 will depend on several factors including, consumer affordability, new product appeal, the unemployment rate and lower fuel prices. If these factors remain as they are now, which is on the positive side, the market could strengthen. This market might weaken more if the pace of economic growth slows significantly, consumer debt levels continue to rise, the housing market woes migrate to other sectors or personal income growth eases. On the bright side used vehicle sales and services continue to do well in the auto sector.

**Banking...**Banking representatives reported slow activity for residential mortgages due to the slowdown in housing sales. Most residential mortgage activity in the past quarter has been focused on converting higher interest rate floating home equity lines of credit and adjustable rate mortgages into longer term fixed rate mortgages. However, there is still small growth in the home equity line

of credit market as consumers seek to refinance higher priced personal debt. Lending to home-builders has slowed as new construction and spec home building has slowed with the market, although lending to land developers has remained active, albeit slower, in Howard County. Commercial real estate for sale seems to be sitting for slightly longer periods of time, and there have been some modest price concessions. Many commercial buyers, like residential buyers, are evaluating properties more closely and taking a longer time to make a decision as they wait to see if prices are firming or still likely to decline further. Although long term rates have moved up slightly from a year ago, these rates are still relatively attractive compared to both historical levels and to short term indexes with the inversion of the yield curve, which continues to put pressure on financial institutions interest rate margins and earnings. Companies generally enjoyed a profitable year in 2006 with increases in liquidity, and continue to report good levels of backlog and business activity going into 2007. Finding and retaining skilled labor remains a challenge for companies based in Howard County.

**Residential Construction...**representatives reported the housing market is bad, particularly in the upper end, but in the lower priced market as well. National and local builders are cutting prices on existing spec home inventories in order to sell homes. When will this downturn end? There is no easy answer to that question. Perception will certainly play a role. Once buyers are comfortable with the corrections to market prices the market will begin to improve. Regionally and locally calendar 2006 earnings will be good, but, calendar 2007 is expected to be a challenge. Margins are expected to be well below normal in 2007.

High land prices will continue to be troublesome to this sector. Commercial real estate is doing well in Howard County and is still on the upswing. Vacancy rates are up, reflecting the increase in the supply of space. Absorption is still strong. There is quite a bit of spec building in the pipeline, but the absorption rate should be able to cover this increased space. Rental rates are beginning to move upward. Investment money is readily available for long term projects as interest rates remain favorable. It was noted that new single story flex buildings seem to have disappeared. It is more cost effective to build a multi-story building on land that is becoming increasingly expensive.

**Professional Service...** industry representatives reported most businesses expect to finish out calendar 2006 at or near profit margins attained in 2005. Cash balances are healthy. Calendar 2006 has been a very good year. Businesses continue to have low debt levels and lines of credit that are underutilized. Large scale technology upgrades are infrequent and small purchases are funded from current cash flows. Inflation is not an issue when making business decisions. Local shortages of labor are driving businesses to increase opportunities for telecommuting, out-source more services, sub-contract offshore, increase recruiting expenditures and rely on older workers to replace younger workers. Calendar 2007 is troubling business owners. Overall economic growth is expected to slow somewhat. Issues like Iraq, energy prices and demand for oil, the housing slump and effects of BRAC are all making business owners uncertain about 2007. In the past business owners were cautiously optimistic about 2007, now they are just cautious. The technology sector noted the climate created by the continuing resolution in Congress has slowed

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		Current	Last Year's	Current Fiscal Year	Last Fiscal Year	Percent
	Reporting Period	Reporting Period	Reporting Period	Average-to-Date	Average-to-Date	Change
<b>EMPLOYMENT</b> (Source: Maryland Department of Labor, Licensing and Regulation)						
Resident						
Resident Employment.....	September 2006	153,033	149,098	153,600	150,065	2.4%
Unemployment Rate.....	September 2006	2.7%	2.7%	3.0%	3.1%	
At Place						
At Place Employment.....	March 2006	141,792	135,764	140,553	138,542	1.5%
Total Wages.....	March 2006	\$1,740,557,850	\$1,537,035,996	\$1,678,014,845	\$1,601,088,406	4.8%
Average Weekly Wage.....	March 2006	\$948	\$873	\$944	\$890	6.1%
<b>COUNTY REVENUES</b> (Source: Howard County Budget Office)						
Personal Income.....	October 2006	\$3,754,722	\$3,220,368	\$10,599,435	\$23,073,882	-54.06%
Planning and Zoning Fees.....	September 2006	\$91,170	\$107,995	\$228,320	\$296,979	-23.1%
Transfer Tax.....	November 2006	\$3,040,734	\$2,760,035	\$10,890,126	\$13,175,062	-17.3%
<b>REAL ESTATE</b> (Source: Maryland Property View; and Trammel Crow Company)						
Single-family Dwellings						
Average Selling Price.....	August 2006	\$451,719	\$471,447	\$469,286	\$493,534	-4.9%
Number of Units Sold.....	August 2006	309	536	295	441	-33.1%
Condominiums						
Average Selling Price.....	August 2006	\$345,187	\$229,292	\$353,372	\$240,658	46.8%
Number of Units Sold.....	August 2006	8	65	7	53	-87.7%
Office Market						
Total Square Footage.....	September 2006	10,801,349	10,124,916	31,791,627	9,915,607	220.6%
Absorption.....	September 2006	90,792	-21,088	549,616	360,602	52.4%
Vacancy Rate Class A & B.....	September 2006	12.90%	9.90%	12.50%	9.07%	37.9%
<b>SALES TAX</b> (Source: Office of Comptroller of the Treasury, Revenue Administration Division)						
Apparel.....	September 2006	\$528,775	\$607,655	\$1,958,950	\$1,730,391	13.2%
Furniture and Appliance.....	September 2006	\$1,270,027	\$1,207,123	\$4,157,597	\$3,949,758	5.3%
General Merchandise.....	September 2006	\$1,889,596	\$1,992,305	\$6,335,166	\$6,634,808	-4.5%
<b>CONSTRUCTION</b> (Source: Howard County Department of Inspections, Licenses, and Permits)						
All Building Permits Issued.....	October 2006	346	414	1,446	1,913	-24.4%
Residential Issuances						
Single-family Detached.....	October 2006	47	43	198	262	-24.4%
Single-family Attached.....	October 2006	38	40	129	211	-38.9%
Multi-family Living Units.....	October 2006	6	0	6	0	100.0%
Nonresidential						
New & AAI Issuances.....	October 2006	58	51	224	222	0.9%
Reported Square Footage.....	July 2006	0	50,612	0	50,612	-100.0%
Estimated Construction Cost.....	October 2006	\$17,506,000	\$3,060,000	\$58,504,000	\$56,908,025	2.8%
<b>ECONOMIC INDICES</b> (Source: The Conference Board; George Mason University Center for Regional Analysis)						
National						
Leading Economic Index.....	September 2006	137.7	135.8	137.7	137.0	0.5%
Washington MSA						
Leading Economic Index.....	August 2006	108.8	110.0	109.4	109.9	-0.5%
Coincident Economic Index.....	August 2006	119.7	122.2	120.8	122.1	-1.1%

“During 2006 most business owners were cautiously optimistic about 2007; now the general feeling is merely caution.”

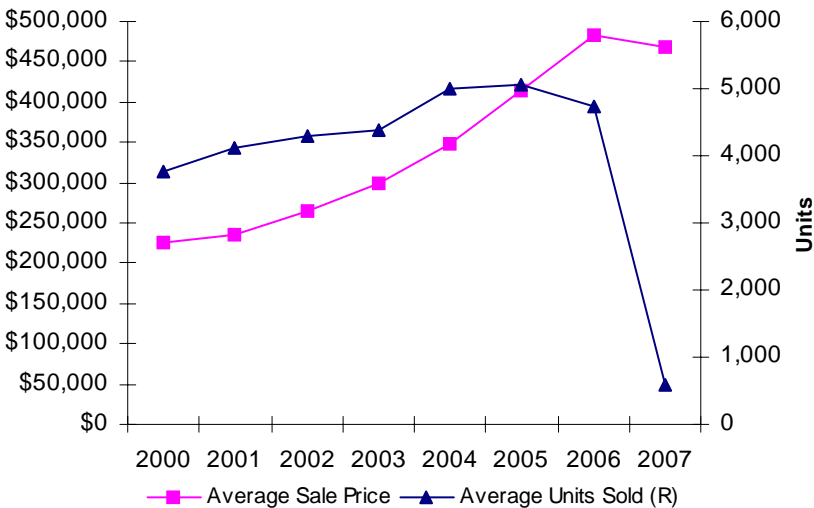
government contract work. High tech jobs are available and many employees are jumping from job to job seeking the best deal.

**Residential Real Estate...**representatives reported the resale home market continues to be slow. The inventory of existing homes is growing as homes are on the market longer, averaging about 70 days compared to 30 days a year ago. The current market is still all about pricing as buyers are waiting for prices to come down. There is no urgency amongst buyers as there is a lot of inventory available. Sellers on the other hand are reluctant to lower prices even though they would realize decent profits if they have owned their home for five years or more. Average prices of resale homes in Howard County year to date through October 2006 have declined by about 2%. Price declines of a dramatic nature are not expected locally due to the excellent school system, location between Baltimore and Washington, and the quality of life for which Howard Coutny is known. Current inventory will take approximately six months to sell. Homes in the \$300k-\$500k range continue to sell best. Calendar 2007 is expected to see fewer sellers listing, shrinking inventories and even modest increases in price. Price increases in double digits are not expected, a more modest 4.5% appreciation is more probable.

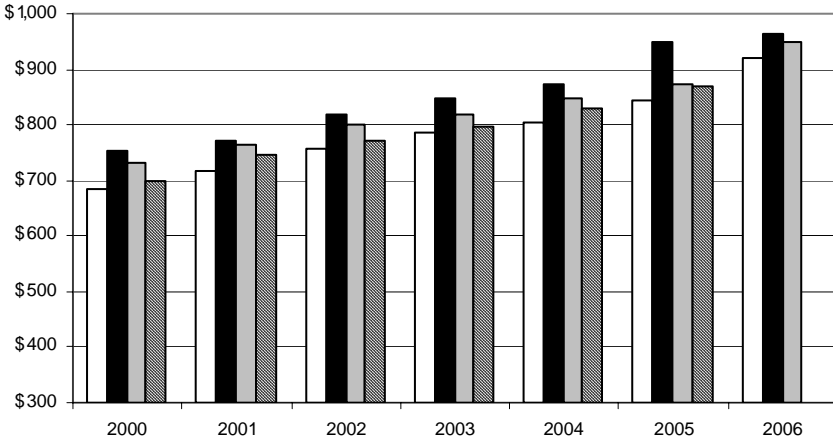
**Service Industries...** representatives reported contracts have been slow to materialize all year. Working with subcontractors is the preferred way to contract. The need for services remains strong. Transportation services have experienced good sales and declining fuel prices have been helpful. Labor has slowed to a dribble; most appears to be coming from outside the county. Most small businesses feel 2006 has been as good as 2005, but would be better if contracts flowed more freely.

**Agricultural...**representatives reported most of the fall harvest is complete. Yields of corn and soybeans are expected to exceed those in 2005 despite the hot, dry weather last summer. September rains helped the late soybean crop. Final yields for 2006 will still be far below the record set in 2000 for both products. Although prices for soybeans and corn have been good, they are not expected to exceed \$4/bushel. Dairy farmers continue to cope with flat prices and increased production costs. There is a lot of discussion about the impact of the increased use of ethanol as a fuel additive. Some suggest higher corn prices may drive up food costs, while others argue there will be little change to food prices. The agricultural community willl be watching this issue closely as it moves foward.

Average Single Family Sale Price & Units Sold  
Howard County FY2000-FY2007  
(FY07 thru Aug.)



Average Week Wage of Individuals  
Howard County Fiscal Years 2000-2006  
(FY06 thru March)



**Overall...**it appears the Howard County economy is still doing well in most sectors. The slowing in the real estate market has continued, although there is some debate about how deep the decline will go. Most other sectors have experienced a year that compares to 2005 and 2004. Cash balances are strong, volumes are good, consumers are happy. Confidence that the upcoming year will be more of the same has faded. There are many unknowns that have created confusion for business owners. The last 2-3 years have been very good years, but the confusion about what is going to happen with BRAC, Iraq, government spending etc... has led to a lack of confidence. Business leaders are now cautious about what the new year will bring. This is not to say 2007 will be a down year, but it will start off as a year of uncertainty

## Summary

**Employment...** Resident employment in September 2006 reached 153,033 persons. The unemployment rate for the same month was 2.7%. This rate was the lowest in the State of Maryland and shared by Calvert and Montgomery counties. The FY07 average unemployment rate is now 3.0% compared to the FY06 average of 3.1% thru the same period..

At Place Employment is reported for March 2006 and was 141,792, an increase of 4.4% compared to the March 2005 level. Total wages for March 2006 grew by 13.2% over the March 2005 level, rising from \$1,537,035,996 to \$1,740,557,850. The average weekly wage thru March 2006 was \$948 up \$75 from the \$873 reported for March 2005..

**County Revenues...**Personal income tax receipts as reported for October 2006 were 16% higher than income tax revenues collected for October 2005. Fiscal year to date FY07 income tax revenues are down 54 % from FY06 levels due to changes in IRS extension dates. Receipts normally distributed in October will now be distributed in January. Planning & Zoning fees are reported for September 2006 and are 15.6% lower than the September 2005 level. Fiscal year-to-date collections for these fees are 23% lower than the FY06 levels. Transfer tax is reported for November 2006. Compared to November 2005 current collections are up 10% in November 2006. Average fiscal year to date collections thru November are down 17% compared to FY06. The much anticipated slowing in the real estate market has begun to show in this revenue source.

**Construction...**Building permits issued in October 2006 declined by 16% compared to the October 2005 level. Fiscal year '07 to date permit activity reflects a decline of 24%, or 467 fewer permits than the FY06 level of 1,913 permits. Single-family detached issuances for October 2006 reached 47 units compared to the October 2005 level of 43 units. FY07 to date SFD permits are down 24% when compared to FY06 year to date levels. Attached single-family issuances decreased by 2 units in October 2006 compared to the prior year. Multi-family permits posted 6 units in October 2006, six more than the level posted in October 2005. Non-residential new and additions, alterations, interior completions (AAI) were up 7 units October to October and fiscal year 2007 to date compared to fiscal 2006 the number of units increased by 2 from 222 to 224. Non-residential reported square footage fiscal year to date is reported thru July 2006. FY07 s.f. to date totals 0 compared to 50,612 reported for FY06 thru the same period. The estimated non-residential construction cost reported for October 2006 was \$17.5 million compared to \$3.1 million in October 2005.

**Economic Indices...** National Leading Economic Index (LEI) as reported for September 2006 was 137.7. The LEI for September 2005 was 135.8. The average LEI for FY07 year to date is 137.7 compared to 137.0 for FY06, a .5% increase. The LEI for the Washington MSA was 108.8 in August 2006, down from the 110.0 reported in August 2005. The Coincident Index for the Washington MSA was 119.7 in August 2006, down from the August 2005 level of 122.2. Fiscal year to date averages for the Washington indices were both negative. The leading index was down .5%

and the coincident was down 1.1% compared to levels reported for the past fiscal year average to date.

**Real Estate...**Average price paid for a single-family home (includes single family detached and town homes) in August 2006 dropped 4.2% from the August 2005 average of \$471,447 to \$451,719. Fiscal year-to-date average prices have declined by 5% in FY07. A total of 309 single-family homes were sold during August 2006, a decline of 42% or 227 units less than the 536 units sold in August 2005. Average units sold fiscal year to date are down 146 units in FY07, 295 units in FY07 vs. 441 units in FY06. Condominium prices in FY07 thru August averaged \$345,187 up 51% from the average price of \$229,292 thru August 2005. Sales of condo units in August 2006 declined by 57 units compared to the number reported for August 2005 when 65 units were sold. The commercial office vacancy rate for September 2006 was 12.9%, up from 9.9% in September 2005. The vacancy rate does not reflect pre-leased new construction. Square footage available has increased by 6.7% or 676,433 s.f. when comparing September 2006 to September 2005. Net absorption thru the third quarter in calendar 2006 was 549,616 s.f. compared to 360,602 s.f. thru the third quarter in calendar 2005.

**Sales Tax...**September 2006 revenues for Apparels decreased by 13% compared to the level collected in the same month last year. The FY06 average receipts to date increased by 13.2% compared to the prior year. Revenues reported for September 2006 Furniture and Appliance sales increased by 5.2% compared to September 2005. Fiscal year-to-date revenues thru September were \$207,839 higher than the previous fiscal year. General Merchandise revenues decreased by 5.2% in September 2006 compared to September 2005. Fiscal year-to-date levels declined by 4.5% or by \$299,642. It should be noted sales tax revenues are not returned to the county as direct revenue. They are an indicator of discretionary spending in the county as reported by local businesses to the State of Maryland.

## Economic Indicators Committee

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